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CONTENTS (*November 22, 1974*)



The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

- 1 The Middle East: Palestinians; Brinksmanship

**EAST ASIA
PACIFIC**

- 5 Vietnam: Military Action Planned
7 South Korea: A Moratorium on Dissent
7 Japan: Tanaka Plans To Resign
8 Cambodia: Uncertainty at the UN

EUROPE

- 9 United Kingdom: Party Meeting; Budget
11 Portugal: Renewed Frictions
11 Italy: Stopgap Solution
13 The East German Red Carpet
13 Soviet Navy Departs Red Sea
14 Romanian Party Congress
16 Greece: Karamanlis an Easy Winner
17 Turkey: Irmak Faces Crucial Test

**MIDDLE EAST
AFRICA**

- 18 Iraq: Cabinet Shake-up

**WESTERN
HEMISPHERE**

- 19 Latin America Tries To Evaluate Quito
20 Peru: Policy Difficulties
21 Brazil: Opposition Electoral Gains

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Next 2 Page(s) In Document Denied

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THE MIDDLE EAST

PALESTINIANS PRESS AHEAD (1 - 6)

The battle between the Palestinians and the Israelis was fought on several fronts during the past week. At the UN, a pro-Arab majority pushed toward approval of an Arab-sponsored resolution on the Palestine question. At home, Israeli security forces grappled with pro-PLO demonstrators on the West Bank and with terrorist infiltrators in the town of Beit Shean. Together, these challenges forced Prime Minister Rabin's government into a more defensive position that will make it still more difficult for him to produce concessions in future peace negotiations.

On November 21 the Arabs were preparing to introduce to the UN General Assembly a draft resolution outlining the "inalienable rights" of the Palestinians "in their homeland." The proposal is almost certain to be approved by a wide majority of member states.

The proposed resolution affirms the rights of the Palestinians: to self-determination without external interference; to national independence and sovereignty; to return to their homes and properties; and to use "all means" in accordance with the UN charter to realize their objectives.

In addition, the proposal asserts that implementation of these rights is indispensable for a just peace in the Middle East, and that the Palestinian people must be a principal party to the establishment of such a peace.

The resolution is primarily a restatement of long-standing Palestinian policy goals. Because it does not threaten Israel directly or explicitly deny Israel's right to exist, the Arabs consider the proposal to be moderate. Israel, however, will interpret the resolution—particularly the reference to a Palestinian homeland—as a denial of its right to exist.

The Arabs made their references to the Palestinian homeland deliberately vague. Their defense of the rights of Palestinians expelled "since 1947," however, confirms that they will continue, at least for bargaining purposes, to perpetuate their historical claim to Israel proper.

In spite of this stand, the majority of Palestinian leaders seem prepared to join most Arab heads of state in settling for a Palestinian entity limited to the West Bank and Gaza. PLO leaders will not admit this in public, however, until Israel indicates a willingness to negotiate with them or until they realize other concrete gains through negotiations.

Tel Aviv considers that UN approval of a statement authorizing the Palestinians to use "all means" to regain their rights would in effect be an international endorsement of terrorism. The Israelis are using this argument in attempts to dissuade several delegations from supporting the Arab proposal. The Arabs, for their part, clearly intend that an element of threat remain in this formulation. Some, including the Egyptians, have argued that fedayeen strikes at Israel are carried out in self defense, and are therefore legal under provisions of the UN charter.

PLO representatives in New York have declined to belabor this line of argument, apparently in the hope that through avoiding too much talk of violence they can win European backing for the draft resolution. The Palestinians consider that the PLO's willingness to give up its earlier call for armed struggle and to restrict its methods to those in accordance with the UN charter represent significant concessions.

In addition to spelling out Palestinian rights, the draft resolution requests the UN Secretary General to establish contact with the PLO "on all matters concerning the question of Palestine." This may be in anticipation of a second resolution, still being drafted, that would accord permanent observer status to the PLO.

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On the occupied West Bank, anti-Israeli demonstrations that began in several towns following PLO leader Yasir Arafat's appearance before the UN General Assembly on November 13 spread to East Jerusalem early this week. The disturbances apparently are the result of a general feeling among West Bankers that events are moving in favor of the Palestinians. Most of the demonstrators thus far have been Arab high school students.

Israeli authorities have imposed a curfew on several West Bank towns, closed some schools, and arrested a number of demonstrators. They have also warned local Arab leaders to maintain order or Israeli military authorities would crack down "unrestrainedly."

In the months ahead, Tel Aviv is likely to find itself facing increased anti-Israeli sentiment on the West Bank and Gaza. Recent soundings by the US consul general in Jerusalem indicate that Palestinian nationalist feelings on the West Bank were given a strong boost by Arafat's speech at the UN. Widespread resentment of Israel's occupation was further reinforced by economic austerity measures announced by Tel Aviv last week.

In Israel proper, three Palestinian terrorists, early on the morning of November 19, seized an apartment house in Beit Shean, a town four miles from the Jordanian border. Before Israeli troops stormed the building and killed the guerrillas, four Israeli civilians died and a number were wounded. The terrorists apparently hoped to take hostages to be exchanged for Arab prisoners held by the Israelis. The Popular Democratic Front for the Liberation of Palestine, a Marxist-oriented group that has aligned itself with PLO leader Yasir Arafat, claimed credit for the attack.

The attack reinforced the Israelis' conviction that they have been right regarding the true nature of the PLO. Israeli Information Minister Yariv said that the attack proved that international recognition would not lead the PLO toward moderation, but, on the contrary, would only encourage it to engage in terrorism. Defense Minister Peres promised the Knesset that the security forces of Israel would deal "unceasing blows" at the terrorists "until the last one is liquidated."

Despite the fact that the attack was mounted from Jordan, the Israelis, conscious of Jordanian attempts to intercept terrorists crossing Jordan to carry out operations in Israel or

Israeli border police with detained youthful demonstrators



Israeli-occupied territory, have this time apparently decided to settle for warning the Jordanians of retaliatory action should Amman fail to prevent future attacks from Jordanian territory. Yariv stated that while Israel would not conclude that Jordan had begun assisting terrorist groups, the onus was on Jordan to prove it had not cooperated with the men who attacked Beit Shean.

The most likely Israeli response is to continue and perhaps intensify the shellings, air strikes, and shallow penetration raids they have long been conducting against fedayeen bases in southern Lebanon. Air strikes at Palestinian refugee camps in Lebanon are also possible. Following the terrorist attack on Maalot last May, also carried out by the Democratic Front, the Israelis responded with heavy air strikes on two refugee camps.⁷

DANGEROUS BRINKSMANSHIP

(7-10)(12,13) Military tension, sharply increased by Israel's partial mobilization last weekend, has eased, but the political war of nerves is likely to continue, at least through the end of the month. The Israelis said their action was a precautionary measure in response to "advanced military preparations" in Syria, but Tel Aviv almost certainly acted in part to intimidate the Syrians into renewing the mandate for the UN observer force, which expires on November 30. Whether or not Syria had made threatening military movements, Damascus' negative attitude toward extending the UN mandate implies that Syria hopes to provoke a political crisis in order to focus attention on its demands for a further Israeli withdrawal on the Golan Heights.

The atmosphere in Damascus and Cairo has been remarkably calm, considering the circumstances. Officials and the media in both countries, however, have charged Israel with fomenting a war scare, and Arab fears of an attack on Syria or Lebanon have undoubtedly increased. Moreover, both Syria and Egypt probably have taken added precautions against a surprise attack. Syria, in particular, has been doing its utmost to train and equip its armed forces for any contingency. Thus,

some local incident could trigger large-scale hostilities with little or no warning, particularly in the Golan Heights.

One positive effect of the war scare has been the reaffirmation by all the parties of their commitment to the cease-fire agreements. Syrian Foreign Minister Khaddam has publicly stated Syria's intention to abide by the cease-fire, and Israeli Defense Minister Shimon Peres has said on national television that he expects any developments in the near future to be political rather than military.

In elaborating on the reasons for Israel's partial mobilization, Peres cited the decisions taken at the Rabat summit conference, rumors that Syria would not renew the UN force mandate, and Arab assertions of Israeli economic weaknesses as causes of Tel Aviv's concern. These developments, along with the recent diplomatic victory scored by the Palestine Liberation Organization at the UN, have left the Israelis feeling beleaguered and pessimistic about future attempts to achieve a negotiated settlement. Confronted with this situation, Israel's mobilization serves various political and military purposes:

- It gives a firm response to Arab pressures for sweeping and immediate Israeli concessions in disengagement negotiations.
- It puts Syria on notice that the removal of the UN troops could expose Syria to immediate attack.
- It raises the threat of an Israeli incursion into Lebanon if fedayeen activities are not curbed.
- It puts the Israeli forces in an even better position to deter or counter an Arab attack or launch an attack themselves.
- It underscores Israeli concern about Soviet military support for Syria in anticipation of the summit meeting between President Ford and Soviet party chief Brezhnev.

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THE SOVIET ANGLE

(7-13) The Israelis, in fact, have repeatedly expressed their alarm about what they perceive as a massive Soviet resupply effort to Syria. Prime Minister Rabin implied that a principal reason for the Israeli mobilization was a substantial increase in the number of Soviet arms carriers that he said were unloading at Latakia. The harbor apparently is crowded to its capacity of 20 or so ships, but not all of these are Soviet or East European vessels. The Soviets have, however, made substantial military deliveries to Syria over the past year.

The public Soviet reaction to the Israeli mobilization has been relatively restrained and cautious, suggesting that Moscow, on the eve of the Vladivostok summit, had chosen not to exploit the new tensions in the region.

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Brezhnev responded promptly to a communication from Syrian President Asad that apparently expressed Syrian concern. Brezhnev probably counseled restraint while indicating backing for Damascus in the event of war. Moscow, meanwhile, announced the day after the Israeli alert that a small flotilla headed by the Black Sea commander would soon visit Syria. Moscow appears to have timed its announcement as a tangible indication of Soviet support.

The Soviets probably consider that the latest episode will strengthen their hand in the region. In contacts with the Arabs, Moscow will likely argue that the Israeli action is further proof of the Arabs' need to rely on Soviet political and military backing to achieve a settlement. The Soviets may calculate that it will increase pressure on President Sadat to improve relations with Moscow in order to obtain badly needed war supplies. They will certainly point to the episode at the Vladivostok summit to underscore their contention that Moscow must be cut in on Middle East diplomacy if a new war is to be avoided.

The Soviets probably have been encouraged by recent indications that one element in the tougher Arab negotiating stance is a growing belief that the time has come for facing up to the hard political questions involved in a Middle East settlement and that Geneva is the best forum for initiating this process. Press reports this week suggested that the Syrians might insist on a quick resumption of Geneva as a condition for renewing the UN mandate, and Egyptian Foreign Minister Fahmi said in a magazine interview that Cairo refuses to discuss any new political initiatives outside the scope of the Geneva conference. Fahmi reportedly also said this week that he expects a resumption of the Geneva conference during February, after President Sadat meets with both Soviet leader Brezhnev and President Ford in January.

THE ARAB DEMANDS

Fahmi's statements probably are not so much a reflection of Egyptian insistence on a return to Geneva as they are of Cairo's sensitivity to Damascus' refusal to support any step-by-step approach to negotiations that allows Israel to avoid dealing with Syria. Egypt probably would still prefer to restore momentum to the negotiating process by achieving a further Israeli pull-back in the Sinai. Nevertheless, ever since the Rabat summit, it has been clear that Cairo is being hobbled by Syria's determination to forestall a unilateral Egyptian-Israeli disengagement as the next step and to press the issue of an Israeli withdrawal on the Golan front.

The Egyptians themselves last week underscored the need for another interim agreement with Israel, providing for a further Israeli withdrawal from the Sinai, by publicly linking the issue to the reopening of the Suez Canal. Fahmi asserted in a speech to a People's Assembly committee that the canal will be reopened only when Israeli forces have withdrawn "enough distance" from the waterway to safeguard shipping. The canal will be technically ready to handle shipping again in a few months.

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THE NEXT STEP

Restoration of momentum to the negotiating process now appears to hinge primarily on the ability of the various parties to find some formula for mollifying the Syrians. There have been suggestions in the press that Syria might yet renew the UN mandate in return for a token Israeli withdrawal in the Golan or for setting a timetable for a reconvening at Geneva. All that is clear about the Syrian position, however, is that

they are bent on playing the mandate issue for all it is worth. If the Syrians do not get a satisfactory response to their demands by the end of the month, they are likely to let the mandate expire, while reiterating their commitment to observe the rest of the points in the cease-fire and disengagement agreements. In this circumstance, tensions are likely to continue to run high because the Israelis may well interpret the Syrian decision as an indication of hostile intent.

VIETNAM: MILITARY ACTION PLANNED

Recently issued COSVN instructions for 1975 outline a Communist dry-season campaign, running through June, that could amount to the most serious military test for Saigon since the cease-fire. The instructions call for widespread and heavy action, apparently to achieve a maximum shock effect, throughout much of the South Vietnamese countryside during the "first days" of the campaign. Subsequent action is to be concentrated in a relatively few "vulnerable" areas. The instructions emphasize that the campaign must get under way as soon as possible—between early and late December—in order to maintain the element of surprise and pre-empt any possible government dry-season attacks.

During the initial phase, the COSVN guidelines appear to prescribe a level of fighting below that of the 1972 offensive. They suggest, however, that the Communists may be prepared to commit the forces and firepower already in the South more fully than they did during the fighting last summer in the hope of achieving some quick and dramatic victories.

Specifically, the instructions call for "intense" fighting in central South Vietnam and the commitment of all Communist units in Military Region 3 to offensive action in the provinces around Saigon. The Communists hope this will force the government to pull one of its divisions out of the delta.

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The guidelines do not cover Hanoi's military plans for northern South Vietnam, an area where Hanoi's strategic reserve could be brought to bear with relatively little warning. Although the bad weather conditions that persist in this area during the winter do not favor heavy enemy action, the Communists could mount enough pressure in the north to prevent the movement of government forces to more active battlefronts. Then, once the weather improves, they may be prepared to strike hard in order to follow up the Communist campaign farther south or to exploit any major government reverses.

There could be considerable slippage in the Communists' timetable. Moreover, with foreknowledge of the enemy's intentions, the government may be able to mount some spoiling operations, particularly in Military Region 3, which could also disrupt Communist battlefield preparations. Nevertheless, once the campaign is kicked off, the government will probably suffer numerous tactical reverses, especially if the Communists make full use of their large inventory of tanks and artillery. It seems unlikely, however, that such reverses would lead to a major strategic breakthrough for the Communists.

Utilizing only the forces at hand in the South, the Communists probably would be able to make and sustain major gains in only one area—the central highlands. The North Vietnamese could probably quickly isolate and bring heavy pressure on both Pleiku and Kontum cities.

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Preparing for action

Communist forces elsewhere in central South Vietnam could tie down government forces by threatening population centers along the coast. The North Vietnamese could also use their firepower to capture some additional territory in the provinces north of Saigon, but they do not appear to have the forces necessary to sustain a protracted drive. After some initial losses in this area, government resistance would probably stiffen and Saigon would retain control over the bulk of the people and the economically important land.

Fighting of the magnitude described in the COSVN guidelines would appear to be within the framework of the strategy Hanoi adopted toward South Vietnam following the cease-fire. This strategy assumed that the Thieu government could eventually be forced into making significant political concessions to the Communists as a result of declining American support for Saigon and carefully measured Communist military pressure on government forces—pressure below the level that would risk American military re-involvement. The COSVN instructions make it clear that the Communists are still following this gradualist approach. They present two options open to Hanoi: a "political" track that features some escalation of military pressure; or a "military" track involving an all-out offensive. The guidelines clearly come down in favor of the former.

Behind this reaffirmation appears to be a judgment by the leaders in Hanoi that their

strategy following the cease-fire is finally beginning to show signs of success. Hanoi's propaganda has been vigorously touting the recent public manifestations of opposition to Thieu in South Vietnam, and, as might be expected, has been egging it on. The North Vietnamese leaders now appear to have decided that a further, if still measured, increase in military action would serve to encourage popular agitation in the South.

MORE CONSCRIPTION

(20, 21)

Hanoi is conducting its second induction campaign in four months. The new drive appears directed at filling the training camps which are now sending troops south

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This latest campaign began in October and appears to be widespread, although there is no sense of urgency in the reporting. Recent propaganda suggests that, in general, localities are meeting their assigned quotas, but earlier reports had indicated that the North Vietnamese were having some difficulty recruiting troops during the August-September drive. This may be part of the reason Hanoi has had to hold a second campaign so soon. If successful in the current induction drive, the North Vietnamese should have enough manpower to sustain a moderate to heavy flow of troops to the South this dry season.

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SOUTH KOREA: PAK IN CONTROL

(26, 27)
 The government of Pak Chong-hui is very much in control as President Ford arrives in Seoul today, but domestic dissent continues to build and both Pak and his opponents seem ready for yet another round of political struggle when the visit ends.

Prospects for a relatively smooth presidential visit improved during the week. Although minor protests by student and Christian groups continued, opposition New Democratic Party leader Kim Yong-sam felt compelled to call for a moratorium on demonstrations while President Ford is in Seoul. At most, there may be some attempt by Pak's critics—such as the protest by Korean women and an American priest at the US embassy yesterday—to dramatize their grievances in hopes of influencing the US visitors to counsel Pak toward moderation.

Following the Ford visit, however, the political situation is likely to heat up once again. Pak's opponents, despite fear of a governmental crackdown once the visitors have left, apparently intend to press on with their campaign for basic political reform. One group, seeking outright revision of Pak's 1972 constitution, plans to move quickly to form a united front of opposition elements. Kim Yong-sam plans to persist in his campaign to secure National Assembly consideration of constitutional changes. Kim apparently believes that economic hardships during the winter will reduce worker support for Pak, and that the situation will become increasingly favorable for antigovernment forces. The students remain unpredictable, but there will soon be a semester break and this will work in the government's favor.

The government also has plans to get much tougher with the opposition, if necessary. Arrests and detentions would become more numerous, new security regulations would be imposed, and reimposition of martial law is also a possibility. The government, concerned over the worsening economic situation, would not tolerate political activity which attempted to exploit worker dissatisfaction.

JAPAN: TANAKA PLANS TO RESIGN

Prime Minister Tanaka [redacted] will announce his resignation early in the week of November 25, paving the way for the ruling party to select a new head of government before the Diet convenes in December.

Tanaka decided to quit rather than face a mud-slinging attack by the opposition parties. He has been under heavy fire since October when an influential magazine accused him of corrupt financial dealings over a period of many years.

Pressures for Tanaka's resignation intensified early this month, but the ruling Liberal Democratic Party called a nominal truce during the visit of President Ford. Nevertheless, factional maneuvering and intra-party discussions continued unabated all this week. The Liberal Democrats have not yet been able to agree upon a successor to Tanaka, however, and even the method of choosing a successor is probably still under debate. The party can select its new president either by a consensus of its elder statesmen, or by ballot at a convention.

Former finance minister Fukuda, one of the key contenders for the top job, adamantly opposes a showdown in a convention vote. He is pushing for selection by a panel of elders who, with their conservative bias, might favor him.

[redacted]
 The Prime Minister therefore supports the convention route, which would allow him to throw the weight of his own party faction behind Finance Minister Ohira—who probably has the votes to win. If the party cannot make a choice between Fukuda and Ohira, it might feel compelled to accept a caretaker leader until Tanaka's regular term expires next July.

Whoever the successor, Japanese policy is not likely to change. Both Fukuda and Ohira would maintain Tokyo's close partnership with the US.

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SECRET**CAMBODIA: UNCERTAINTY AT THE UN**

(28, 29)

The timing of the UN debate on Cambodian representation will apparently be decided by a battle of wills between General Assembly President Bouteflika and the chairman of the assembly's political committee—and the timing may well affect the outcome. The political committee had earlier decided to debate the Korean issue before Cambodia and had set November 25 for the beginning of its deliberations on Korea. The Korean issue was expected to be decided in early December, after which the assembly would take up the Cambodian question.

During the past week, however, Bouteflika unsuccessfully pressed the chairman of the political committee—Argentinian Ortez de Rozas—to postpone debate on Korea so that the Cambodian issue could be taken up immediately after the debate on Palestine concludes, late this week or early next week. Bouteflika and his nonaligned colleagues apparently hope that an Arab victory

on Palestine, following the action on South Africa, would create a more favorable climate for Sihanouk's case. Phnom Penh's backers hope that the debate on Korea will help dissipate some of the nonaligned momentum, and they want to adhere to the original schedule.

At midweek, neither Bouteflika nor the political committee chairman—who is increasingly irritated at Bouteflika's high-handed methods—had caved in, and the timing on the Cambodian issue was still undecided. Phnom Penh's backers are taking no chances. They are rushing their lobbying campaign and are preparing for an early vote on Cambodia. At the moment, it still appears that the crucial vote on the priority of Phnom Penh's resolution to defer once again UN action on Cambodia will be so close that a fluke—such as an unexpected absence or a miscast vote such as Norway's last year—could decide the issue.



Long Boret

GOVERNMENTAL CHANGES IN THE OFFING

In Phnom Penh, it has become apparent that a significant shake-up will occur in the government next month no matter what the outcome at the UN. If his government retains its seat, Prime Minister Long Boret plans to push this advantage to reorganize his cabinet, most notably by replacing the defense, interior, and finance ministers.

These planned changes are minor compared to the political upheaval that would probably result from a government defeat at the UN. An unfavorable vote would probably lead to a rapid dissolution of the Long Boret government, and recent reports indicate that the Prime Minister holds few illusions on this score. Boret has said that he would resign immediately. Finding a new prime minister as capable as Long Boret, while keeping the inevitable round of political infighting within bounds, would be a major challenge for President Lon Nol. There are indications that the military would push for greater participation in the government in the event of a UN defeat. [redacted]

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SECRET**UNITED KINGDOM****LABOR PARTY MEETS**

(38 -42)

The annual Labor Party conference next week, when party delegates review government stewardship and debate policy, will be highlighted by the continuing power struggle between left-wing Laborites and the moderates led by Prime Minister Wilson. This year's conference could be heated in view of the rising challenge from the left and signs that Wilson intends to take a tougher line toward rebellious party members. Most of the problems besetting the party are not likely to be resolved, but the moderates have picked up strength and could force the left to regroup before mounting a serious challenge to Wilson in Parliament.

The conference, from November 27 to 30, will focus on the government's economic policy. On the eve of his budget speech last week, Wilson warned all Britons to cooperate with government efforts to fight inflation. He cautioned trade unions to abide by the voluntary wage restraints of their "social contract" with the government.

Wilson's tough talk apparently has had little effect on militant leaders of the coal miners' union. Following a vote Monday that rejected a coal board proposal offering wage incentives for increased productivity, militant miners demanded steep pay hikes as part of any overall agreement. Militants in the miners' union, as in other unions, are likely to continue to push their wage demands, to the detriment of their social contract and its voluntary restraints. These pressures should be evident at next week's conference, where an overwhelming majority of the voting delegates come from the trade unions.

The new budget will also cause some controversy. The trade unions generally go along with it, but fear that the reduction of government subsidies to nationalized businesses will sharply increase prices. The left-wing Laborites resent efforts to aid industry and argue that the capital provided ailing industrial firms will cut into the funds available for social programs.

Wilson has, nevertheless, won some important battles with Labor's left. Three left-wing ministers who criticized joint naval exercises with the South Africans submitted formal apologies to Wilson—at his insistence—for breaching the doctrine of collective responsibility and failing to support government policy. Last week, Labor's parliamentary group elected moderate Cledwyn Hughes as their chairman, defeating incumbent Ian Mikardo, one of the leading leftist spokesmen in Parliament. In addition, the leftists, who are the primary source of sentiment against the Common Market in the Labor Party, took another beating earlier this month in public opinion polls, which showed that 53 percent of the voters favored remaining in the EC. This should put the damper on efforts to push through a strong anti-market resolution at the conference.

Perhaps of greater significance, however, is the apparent change in Wilson's own attitude, and indications that he is prepared to use tough talk—and conceivably tough actions—to defend government policies against attacks by party rebels.⁷

THE BUDGET

(44 -47)

The Labor government's latest budget, announced last week, will prevent some near-term unemployment but will not improve economic growth. Chancellor of the Exchequer Healey chose to give financial relief to the hard-pressed business sector, with the cost falling on personal consumption.

The new budget is a cautious document which will not satisfy most economic factions. It corrects some growing distortions in the British economy. It gives aid to troubled industry without fully satisfying the appeals of businessmen; it hews to socialist control over economic activity while encouraging the private sector; it props up the economy while providing little net stimulus at a time of raging inflation and incipient slump.

Faced with faltering private investment, spreading bankruptcies, and mounting unemployment, Healey tailored his new budget to the ills of

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industry. Current corporate difficulties have been brought on by escalating costs, restrictive price controls, and heavy taxation. Inflated inventory values have kept up nominal profits while companies' financial positions deteriorated. At the same time, high interest rates and a collapsing stock market have dried up the usual sources of capital.

Easing price controls and lightening the corporate tax burden will improve the companies' cash situations and restore profitability somewhat. The expanded loan facilities and a new National Enterprise Board, to provide equity financing for firms the government wishes to help, will ease corporate financing difficulties. In addition, the banking system has been directed to continue favoring industrial lending at the expense of consumer loans.

Phasing out subsidies to nationalized industries means higher prices for electricity, natural gas, coal, trains, and postage. Under Healey's plans, prices in these industries will more realistically reflect costs, saving the government \$1.8 billion over the next year.

On balance, the budget provides little stimulus to total demand. Reduced tax payments by companies will be offset by smaller deficits in the nationalized sector. Corporations will find business a little more profitable, but expanded sales will be difficult because a greater proportion of consumers' budgets will be spent on the higher priced products of the nationalized industries. The new price codes will provide some stimulus to investment, but, without the prospect of renewed economic growth, this incentive will be weak.

Overall, the government expects its borrowing requirement to swell from \$6.5 billion in fiscal year 1974 to \$14.5 billion in 1975. Large as it is, the expanded budget deficit will just about offset the contractionary effect of Britain's \$9-billion current account deficit.

Removal of exchange rate guarantees signals a willingness of British authorities to let the pound depreciate. The move itself will have little

BUDGET HIGHLIGHTS

Modification of price controls on private companies, tying price relief to new investment.

A \$1.8-billion reduction of the corporate tax liability to soften the effect of inflation on corporate taxes.

A \$2.3-billion increase over the next two years in industrial investment funds through a quasi-public finance corporation.

Price increases in nationalized industries to reduce public subsidies.

An increase in the tax on gasoline.

Increases in pensions and other benefits amounting to \$460 million in the next year.

The elimination at the end of this year of remaining exchange rate guarantees on official balances held in London.

direct effect on the exchange rate because the guaranteed balances are declining in importance, and sterling interest rates remain attractive. The competitiveness of British exports, however, has begun to slip as inflation in the UK outstrips that of its major competitors. Inasmuch as the government's economic strategy calls for maintaining export performance, some decline in the pound may be necessary.

The budget is likely to jeopardize further the government's strained social contract with the trade unions. Planned price increases in the public sector will be large and highly visible. Prime Minister Wilson has warned the unions that recent pay settlements are threatening the social contract guidelines. Even so, another spurt of accelerated inflation is sure to fuel union claims for still larger pay boosts.

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PORUGAL: RENEWED FRICTIONS *(S-2-55)*

Tensions which developed late last week within the governing Armed Forces Movement when moderates renewed attempts to curb the activities of left-wing militants have apparently subsided, at least for the moment.

The immediate cause of the controversy was the most recent issue of *Movement*, the Armed Forces Movement's weekly bulletin, that attacked the economic policies of the provisional government. The bulletin, which the movement began publishing last month to explain its policies to the people, is largely staffed by left-wing movement activists and reflects their point of view.

Moderate officers reportedly demanded the dissolution of the leftist-influenced Coordinating Committee of the movement. The US embassy in Lisbon reported that the Armed Forces Superior Council, an advisory group formed late last month to coordinate military activity in the government, had also demanded dissolution. No action has been taken against the committee, however, but there apparently has been some success in reconciling the moderates and the militants, at least for the time being.



Goncalves

The illness and possible resignation of Prime Minister Goncalves has added a new dimension to the continuing conflict within the movement. According to two embassy sources, Goncalves submitted his resignation on November 15,

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and each faction within the movement is maneuvering to have one of its own succeed him

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Growing dissension within the movement is significant because the young officers had managed, in the past, to present a generally united front in opposition to former President Spinola's policies. Since Spinola's ouster, the moderate majority appears more willing to take its own stand and less willing to be led by left-wing activists.

The political atmosphere in Lisbon is further troubled by renewed rumors of plots by loyalists of the Caetano regime against the provisional government. Threats of a coup from the right have been used by the left in the past to unite their own forces against a "greater danger." Communist leader Alvaro Cunhal issued such a warning last week.

Although right-wing elements undoubtedly are planning moves that would return them to power, there are no indications of any action in the immediate future. The leadership also apparently does not believe there is any danger. Minister without Portfolio Melo Antunes left on a trip to Paris this week. Major Vitor Alves, who returned from a European tour last Saturday, is the only member of the Goncalves-Alves-Antunes power triumvirate now in Lisbon.

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ITALY: STOPGAP SOLUTION *(S-6-58)*

Aldo Moro secured agreement this week on a formula that will give Italy a new government, but it leaves unresolved most of the economic and

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political differences that brought down the previous one.

The small Republican Party has agreed to join Moro's Christian Democrats in a two-party coalition, while the other two center-left parties—the Socialists and Social Democrats—have agreed to provide the coalition with a parliamentary majority.

Moro's government will be only a stopgap affair. Politicians settled on the two-party solution only after two previous proposals had failed to draw sufficient support. During the initial phase of the seven-week-long stalemate, Christian Democratic Party boss Fanfani could not persuade the four parties to join in another center-left coalition. More recently, Moro cut short an effort to set up an all - Christian Democratic cabinet when the Social Democrats balked at the idea.

The Social Democrats, in fact, were the least flexible of the four parties throughout the negotiations and managed to exert influence out of proportion to their parliamentary strength; they have less than 5 percent of the seats in the legislature and their votes are not required for a center-left majority. The Social Democrats triggered the crisis in early October by accusing the Socialists of collusion with the Communists. Even after the Socialists moderated their position on the Communist issue to the satisfaction of the other parties, the Social Democrats would not change. They refused to endorse an all - Christian Democratic cabinet, claiming that it would be "too open" to Communist influence.

Increasingly isolated, the Social Democrats finally conceded when the Christian Democrats put the two-party proposal on the table. It was undoubtedly meant to be a face-saving device for the Social Democrats, who had not voiced public opposition to this alternative.

The Social Democrats were able to hold out for so long mainly because of differences between left- and right-wing elements within the dominant Christian Democratic Party. Moro—who leads the Christian Democratic left—wanted to dump the

Social Democrats when they declined to back a Christian Democratic cabinet; he already had majority support from the Socialists and Republicans. Center and right-wing Christian Democrats were reluctant, however, fearing that such a move would expose the party's right flank.

Thus, the Christian Democrats were spared a potentially divisive decision when the Social Democrats fell in behind the two-party proposal. The fact that Christian Democratic unity is so fragile, however, casts doubt on the party's ability to reverse its sliding fortunes. Early this week, the party suffered another reversal when scattered local elections showed substantial Christian Democratic losses and notable gains for the Socialists and Communists. Although these contests were of marginal significance nationally, the results are already being trumpeted by the left as further evidence of the Christian Democratic decline.

The Communists are probably satisfied with the outcome of the government crisis. Although they would welcome a major concession from the governing parties—such as formal consultations on legislative matters—they are not eager to be saddled with the responsibility of governing under present circumstances. They want to prepare for nationwide local elections in June, when they hope to secure further advances. The Communists, moreover, have good relations with Moro. He is not about to make a deal with the Communists, but he will probably give more weight to their views than would most other Christian Democratic leaders.

Moro hopes that tempers will cool enough to permit a later effort to revive the center-left coalition. Failing that, he will try to keep the lid on inter-party conflicts, at least until the local elections in June. After that, all parties will reassess the situation.

In the meantime, Moro's fragile coalition will have to cope with rising inflation, growing unemployment and continuing labor unrest. In addition, it appears that Italy will be hit this winter by a serious fuel oil shortage that will require rationing of electric power.

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~~SECRET~~**THE EAST GERMAN RED CARPET**

(59-63)
 Last week, President Tito made his first visit to East Germany in nine years. Pankow provided an unusually warm reception. All Politburo members were on hand for his arrival, and massive crowds turned out to greet the Yugoslav leader at every stop. *Neues Deutschland*, the party paper, set the tone of the highly favorable media coverage by running a banner headline greeting in Serbo-Croatian.

The carefully arranged demonstration of friendship was clearly intended to bury old and bitter ideological differences. In addition, it served Soviet interests by attempting to counteract the harmful effects of Moscow's abortive support of the "Cominformist affair" in Yugoslavia. Tito, who openly questioned the spontaneity of his welcome, does not seem to have been taken in.

The communique on the visit indicated that the Tito-Honecker talks focused on the development of economic relations and expanded co-operation but hinted at significant differences over cooperation in the communist movement. Apparently at Tito's request, the communique called for increased tourism between the two



Tito and Honecker

(59, 62, 63)

countries. The East Germans are likely to drag their feet on this project, however, because of their continued concern over ideological subversion and escapes to the West.

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SOVIET NAVY DEPARTS RED SEA

(64 - 66)
 The command ship for the Soviet mine-clearing operations in the Strait of Gubal and three mine-sweepers began their return trip to Vladivostok this week, following completion of the mine clearing on November 10. These are the first to depart of the group of seven minesweepers and four to six support ships that arrived in mid-July. The remaining ships are scheduled to leave the Red Sea area before the end of the month according to Soviet authorities.

The helicopter ship Leningrad and an escorting destroyer that joined the mine-clearing group at the end of July left in September. During the operations, the Leningrad's helicopters worked regularly as spotters and transporters. On two occasions, the helicopters seemed to be directly involved in minesweeping—once they appeared to be operating a radio-controlled sweep device, and another time they were sighted towing a pontoon float in shallow waters.

Toward the end of August, the mine-clearing operations brought the Soviet ships and helicopters into Israeli-occupied waters. An understanding achieved through informal Israeli-Egyptian contacts at the UN prevented any confrontation between Soviet and Israeli naval units.

This week, four small Egyptian ships traveled through the canal and are now proceeding through the Gulf of Suez to the Red Sea—the first commercial ships to do so since June 1967. Large-scale transit is not likely to begin until sometime during the first half of 1975, when salvage and dredging operations now under way by US, British, and French groups are completed.

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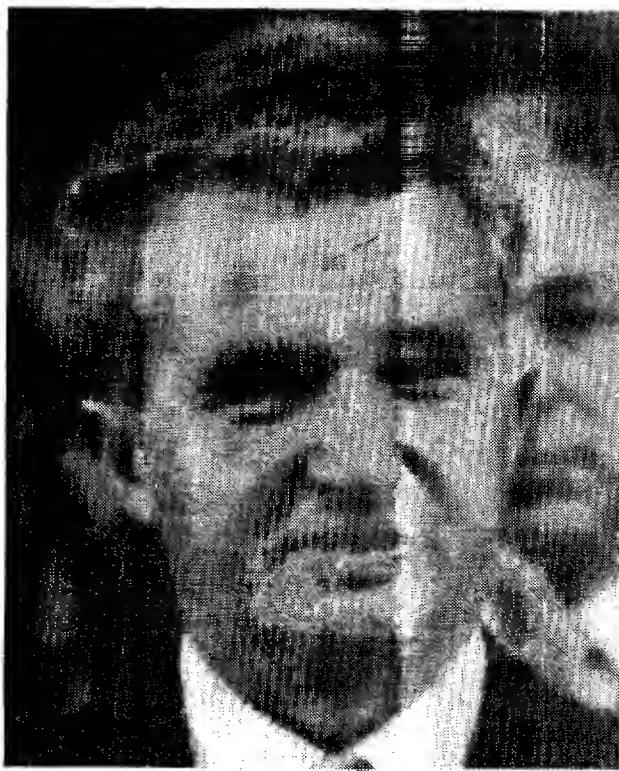
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THE ROMANIAN PARTY CONGRESS

(67 - 70)

Romania's 11th Party Congress, which opens on Monday, will be party boss Ceausescu's show from start to finish and will endorse Romania's maverick communism as enduring national policy.

The congress may boost Ceausescu's personality cult by electing him party secretary general for life. Delegates will approve a new party program that emphasizes the link between Romanian national interests and party policies and that molds Marxism-Leninism to fit specific Romanian conditions. Adoption of the program will lay Bucharest open to Soviet charges of "revisionism" on several counts.



Ceausescu

Both the Soviets and Chinese have been invited to attend, and both apparently have bowed to the Romanian condition that there be no polemics. A Soviet diplomat in Bucharest claims that because of the strong "ideological" overtones of the congress, Moscow will tailor its attendance accordingly. He presumably means that the Kremlin will send a medium- or even low-level delegation as a sign of its displeasure.

In an effort to strengthen its identity with the so-called progressive forces, Bucharest has also sent invitations to a wide array of third world countries, liberal movements, and leftist organizations and parties in Western Europe.

The congress will probably introduce several new faces at all levels of the party leadership. Multiple candidate lists are being used to elect new officials, and one third of the members of all party bodies—including the Central Committee—will probably be newcomers by the time the congress is over. The multiple candidate system is not so much a bow to social democracy as Ceausescu's way of breaking up regional fiefdoms, injecting new blood into the party, and attempting to stimulate interest in party activity among the rank and file. The regime is tightly controlling information on exactly what and who will be changed.

The public, while responsive to the regime's recent trumpeting of Romanian national interests in preparation for the congress, remains skeptical about much of what it hears. The man on the street, resigned to tight internal security and seeing no easing of his rather Spartan living conditions, remains less than enthusiastic about the congress, the party program, and—to some extent—Ceausescu himself.

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**Revisionism as Defined by
Soviet Party Secretary Ponomarev**

1. Minimization of threat of imperialist aggression
2. Denial of the leading role of the Soviet party
3. Rejection of the class struggle and permitting collaboration between the classes
4. Social Democracy (the concept that capitalism can be overthrown by non-revolutionary means)
5. Denial of the dictatorship of the proletariat
6. Rejection of a centralized, disciplined party
7. National communism

The Romanian Party Program

1. Warns against imperialism, but does not mention imperialist aggression. Endorses cooperation with the West.
2. Stresses autonomy and independence of every communist party; asserts that Marxism-Leninism must be applied to the specifics of each country.
3. Justifies postwar collaboration with the bourgeoisie and the monarchy. Introduces "socialist humanism," a concept focusing on the individual, and not the class.
4. Does not specifically call for a revolutionary overthrow of capitalism; says only that capitalism has completed its historic role and now socialism must take over.
5. See No. 3 above.
6. Not specifically mentioned, but the Romanians endorse the concept of a centralized, disciplined party.
7. Lavishes praise on Romanian history, culture, and national heroes. The party proceeds "from the fact...that in communist society, the nation and the national state have a role of great importance for a long time."

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GREECE: KARAMANLIS A BIG WINNER

(72,73) Prime Minister Karamanlis' New Democracy Party won a decisive victory in last Sunday's election, winning almost 55 percent of the vote, for a parliamentary majority of 220 seats out of 300. The unprecedented majority in parliament—a result in large part of Greece's electoral law—will give Karamanlis both maneuverability and power to deal with problems at home and abroad.

The centrist Center Union - New Forces led by George Mavros, the nearest rival and now the chief opposition party in parliament, received 20 percent of the vote and 60 seats. The Center Union was squeezed between left and right and lost heavily to the New Democracy Party.

The voters rejected the extremes of both left and right. The rightist monarchist National Democratic Union, which was widely viewed as crypto-juntaist, received less than 2 percent of the vote and no seats. Andreas Papandreou's Panhellenic Socialist Movement, which had conducted an anti-US, anti-NATO campaign, received 13 percent and 12 seats; the communist United Left got 9 percent and 8 seats.

Public fear of instability and the divisiveness of the left probably had a lot to do with the left's poor showing. The US embassy believes that Papandreou's frenzy in the final week of the campaign had the effect of driving undecided middle-class voters toward Karamanlis. The leftist defeat should reassure the right wing, which feared the legalization of the communists, and deprive diehard anti-communist officers in the army of a pretext to move against the government.

The vote was above all a solid expression of confidence in Karamanlis' ability to handle the problems left over by the military regime that collapsed last July. Karamanlis successfully disarmed potentially dangerous issues, such as the monarch and punishment of the junta, and broadened his conservative constituency. His party's strength was strongest in the Eastern Peloponnesus, but it also did well in Athens and Thessaloniki. It was weakest in Crete, where the Center Union and Papandreou's party made their best showing.

Karamanlis' impressive victory has given him greater flexibility on the Cyprus question and placed him in an improved position to deal with Archbishop Makarios, who is due in Athens soon. The Greeks are now ready to talk realistically in terms of a federation on the island divided along geographic lines. On the question of Athens' future relations with NATO, the Prime Minister said this week that "it depended on NATO," and he linked Greece's relations with NATO to a satisfactory settlement of the Cyprus issue.

A plebiscite on the monarchy will be held on December 8. If, as expected, the monarchy is rejected, President Gzikis—one of the last holdovers from the old junta—will resign, and parliament will elect a provisional president to hold



Karamanlis
A comfortable majority

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office until the electorate chooses a president on the basis of the new constitution. A draft constitution will be drawn up by the government now being formed by Karamanlis and submitted to parliament, which has three months to amend it. The constitution is expected to strengthen the executive branch. If the monarchy is restored, the strengthening will apply to the office of the prime minister; if the monarchy is rejected the presidency will become the most powerful office. Karamanlis will undoubtedly be elected president, probably in May or June, or assume a strengthened prime minister's post under the monarchy.

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TURKEY: IRMAK FACES CRUCIAL TEST

(74-76)

Prime Minister designate Sadi Irmak formed a cabinet and took over the reins of government this week but still faces the difficult task of obtaining a vote of confidence from parliament. Irmak failed to entice Turkey's major political parties into a coalition and reluctantly formed a government made up almost entirely of independents and technocrats. To gain parliamentary approval, the Irmak government must devise a program that will be satisfactory to former prime minister Ecevit's Republican People's Party (RPP), as well as to the Justice Party, Turkey's second largest party.

Irmak's cabinet, which took office after receiving President Koruturk's approval, is made up primarily of competent academicians and government technicians, with the small Republican Reliance Party the only political faction providing cabinet ministers. The composition of the government indicates that it will be basically pro-US, with the Foreign Ministry headed by the long-time ambassador to the US, Melih Esenbel. The new government will have only a limited mandate to act on Turkey's growing political and economic problems, however, with only 6 of 27 cabinet ministers having been elected to any office.

After being asked by the President to form a government, Irmak announced that he would try to form a broad coalition of all political parties. He failed, largely because the parties could not agree on the timing of new elections, which Irmak had labeled his first priority. The major center and rightist parties declined to commit themselves to a date, and Ecevit's party withdrew its support from Irmak when he was unable to guarantee that new elections would be held no later than next June.

Irmak is scheduled to present his program to parliament on November 24, and the vote of confidence on the program could come as early as November 29. Two of the smaller parties—the right-of-center Democratic Party and Ecevit's old coalition partner, the National Salvation Party—have already announced their opposition to the new government on grounds that it is unconstitutional. This means that Irmak, in order to win the confidence vote, must receive the support of both the RPP and the Justice Party. Those charged with drafting the government's program will no doubt sound out leaders of both parties, but it will be no easy task to come up with a program that will satisfy both. If Irmak succeeds, it will be because neither party was prepared to assume responsibility for prolonging the government crisis.

If Irmak can surmount this hurdle, the non-political character of his government will free him from partisan political concerns in making decisions on controversial issues. The absence of a committed majority in parliament, however, will prevent him from launching any major new programs or initiating any abrupt policy changes. If Irmak fails, he will continue as head of a caretaker government while the political parties try again to reach an agreement that will break the impasse. In this event, the political stalemate will continue to take its toll in terms of government inaction on several pressing problems.

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IRAQ: CABINET SHAKE-UP

(87-89)

Baath party strong man Saddam Husayn Tikriti apparently is maintaining his control over the instruments of power in spite of continuing internal dissension about the prolonged war against the Kurds, with which he is closely identified. Although President Bakr retained his post as minister of defense in a cabinet shuffle announced last week, the new ministerial lineup suggests that Bakr

is playing an increasingly subordinate role to Saddam Husayn.

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There have been signs that Saddam Husayn has been subject to increasing criticism from within both the ruling Baath Party and the military as the campaign against the Kurds that began last March has dragged on, bringing mounting casualties and economic problems. Saddam Husayn had promised last spring to end the war by September, but it is now evident that the army faces a long winter fighting the Kurds in the northeast highlands. Nevertheless, the party strong man seems to have had his way in shaping the new cabinet; his control of the party security apparatus is a solid asset in keeping critics in check.

The cabinet reshuffle was the most extensive since the Baathists took power in Iraq six years ago. Among eight new ministers are five party members believed to be close to Saddam Husayn. Only two or three ministers of the revamped cabinet are identified with Bakr, a former army man whose power base remains the officer corps. The remaining ministers are not thought to have close political ties with either of the two top leaders.

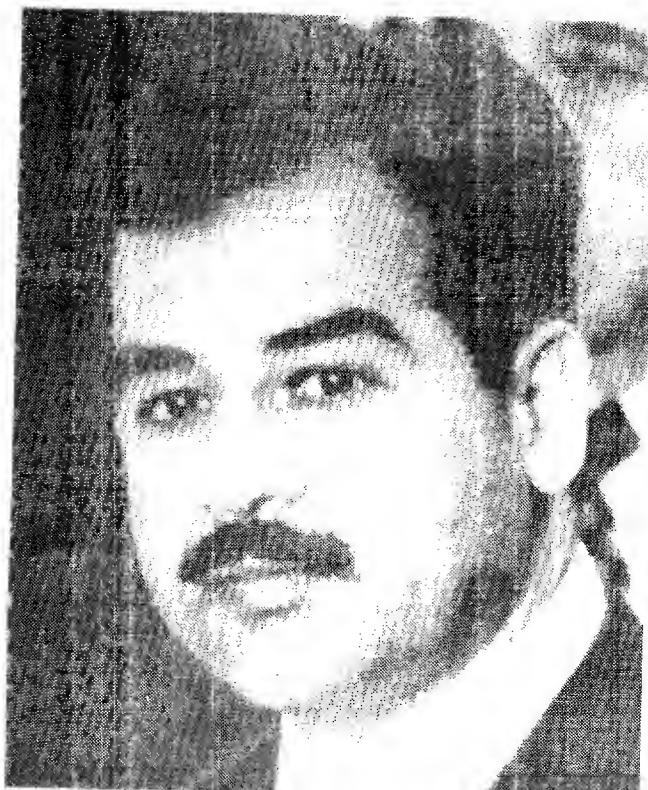
The new cabinet demonstrates again that the Baath Party has no intention of sharing power with the Communists, Arab nationalists, or any other group. The naming of a number of well-qualified men, on the other hand, does point to a continuation of the trend toward pragmatic policies that place emphasis on economic development.

MOST EXTENSIVE RESHUFFLE SINCE THE BAATHISTS TOOK POWER SIX YEARS AGO.

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The US representative in Baghdad considers the appointment of US-educated Sadun Hammadi as foreign minister—he had been oil minister—a hopeful sign for Iraq's relations with the West. Hammadi will probably be the administrator rather than a major formulator of foreign policy, which is expected to lean toward nonalignment.

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Tikriti

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LATIN AMERICA TRIES TO EVALUATE QUITO

(95-98)

The strong views and blame-placing that were the first reactions to the Quito meeting of OAS foreign ministers have begun to subside. Many Latin American governments and opinion makers are now settling into a sober examination of the state of inter-American relations. Serious concern over the divisions that surfaced at Quito is being felt by both the "winners" and "losers" on the Cuba sanctions issue. The judgment that the OAS is in crisis is denied only by a handful of optimists. Some tough policy questions face those governments that want to establish relations with Havana.

The Latins had taken considerable pride in the unity they had brought to the new dialogue begun with the US early this year and had come to view their own cohesion as essential to effective dealing with the US on broad issues. They fear that something vital has been lost, but seeing the embarrassment that befell the sponsors of the aborted resolution at Quito, many will be hesitant to make new proposals designed to correct the flaws in the dialogue. Mexico and Venezuela, however, have gone a little further with their joint sponsorship of what they call a Latin American Economic System, a bloc that would include all Caribbean and Latin states, including Cuba, but not the US. Most countries have seemed cool to the idea, but their search for a useful vehicle through which to advance their interests may attract them more to this approach.

Opinion is divided over the reform of the OAS. Some think the organization is so laden with bureaucracy and outworn tradition that restructuring is a lost cause. Others feel that a regional organization that includes the US is necessary to any real interplay on issues that involve "responsibilities" of the highly developed countries toward the less fortunate. These believe that reform of the OAS has become a truly urgent priority.

The countries that delayed their recognition of Cuba so that the Quito meeting would free



them of OAS obligations to the contrary are in a quandary. They seem to sense that it will reflect badly on them to act hastily after Quito failed them, and how and when to proceed are subjects of debate in high councils of government as well as in the media. One report has it that the Venezuelans will work for a common position with Colombia, Costa Rica, Ecuador, and Honduras, and would simultaneously announce relations with Havana. Both Quito and Tegucigalpa, however, have denied that they will approach Havana.

Cuba in the meantime has been reserved on the outcome of Quito—whether from a sense of diplomatic propriety or because of indecision is not yet clear.

It seems likely that the soul-searching and review under way in Latin America will eventually produce some fresh thinking on inter-American affairs. Most of the governments seem inclined to be constructive and anxious to recapture a spirit of consensus.

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SECRET**PERU: POLICY DIFFICULTIES**

(103 - 109)

Serious strains in President Velasco's military government are becoming evident and are likely to have a marked effect on the regime's domestic policies and on certain aspects of its foreign affairs. Already there is evidence that the US is being singled out as a scapegoat for some of the difficulties Velasco is facing. Peruvian plans for dealing with Chile also are apparently being reassessed.

Recent disagreements between individual cabinet ministers and between officers in different services stem from:

- Velasco's efforts to force a number of high-ranking moderate officers into retirement and prevent General Morales Bermudez from assuming the post of prime minister next February;
- indications of widespread corruption in the ministries;
- strong public criticism of the terms of a loan agreement the government recently signed with Japan;
- uncertainty over the readiness of the armed forces to undertake a campaign against Chile.

Doubts about the armed forces' preparedness for war probably are partly responsible for recent Peruvian attempts to portray an image of friendly neighborliness vis-a-vis Chile. Army Chief of Staff Morales Bermudez met with his Chilean counterpart near the border earlier this month, and troops from both nations this week held a joint border ceremony highlighted by the planting of an olive tree.

The militarily weaker Chileans welcome such opportunities to ease surface tensions, but are unlikely to conclude that the overtures reflect abandonment of Peru's historic revanchist goals. There is no reason to believe that Chilean military leaders are revising their assessment that they are faced with a real danger of Peruvian attack.

Chilean army Chief of Staff Bravo reportedly used the meeting with Morales Bermudez to emphasize Chile's determination to "fight to the last man" if necessary.

The Chileans regard Morales Bermudez as far more sensible than some of his colleagues, however, and they appear to be hoping that there could be a genuine easing of tensions if he becomes prime minister.

Charges of US interference in Peruvian affairs are once again being voiced by Velasco personally, through his cabinet, and via the press. While these charges reflect a genuine conviction that the US remains hostile to the Peruvian revolution, they are also apparently part of an effort to shift the blame for certain charges that have been leveled at the regime. For instance, in a recent press conference, the President suggested that the CIA might be behind the developing scandal involving the Ministry of Agriculture. Velasco also raised the specter of CIA involvement in charges that the government "sold out" in signing the agreement with Japan to finance part of the planned trans-Andean oil pipeline. Pro-government newspapers have echoed these charges and have alleged CIA involvement in Peace Corps activities in Peru. On November 4, the government formally requested that all Peace Corps programs be terminated.

Allegations of US involvement in "counter-revolutionary" activity may also be laying the groundwork for further repressive measures against the press and other civilian groups critical of the regime.

If the current situation continues, however, Velasco will need more than a foreign scapegoat to stave off serious dissatisfaction with his leadership.

This situation will get worse unless Velasco is able to restore a sense of unity and purpose to his government.

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Velasco himself must take a good deal of the blame for the strains in the regime. His blatant efforts to tamper with military seniority procedures and his hypersensitivity to criticism have caused much of the current unrest. In such a situation, and particularly if the corruption and Japanese loan controversies intensify, dissident groups may be emboldened to increase their efforts to disrupt the government in an attempt to cause Velasco's ouster.

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stressed that an MDB victory should be put at the service of national goals, not individual gain.

The success of the opposition is in large part the result of widespread discontent among both lower and upper income groups with the rapidly rising cost of living. The government had recently announced a wage boost and the easing of consumer credit, but the measures failed to dampen the appeal of voting for the MDB as a form of public protest. The vote may also indicate dissatisfaction with the closed political system that has prevailed since 1964.

25X1 BRAZIL: OPPOSITION ELECTORAL GAINS

In the wake of a substantial victory in last week's elections, leaders of the nominal opposition Brazilian Democratic Movement (MDB) party are stressing their determination to work constructively with, rather than challenge, the governing system. (110 - 112)

MDB gains had been expected, but party leaders are surprised at the extent of their success. Although returns are still incomplete, the MDB may win nearly half the seats in the Chamber of Deputies, greatly increase its number of Senators, and obtain control of most of the important state assemblies. Spokesmen for the MDB are seeking to mollify extreme conservatives, especially in the military, who might react by increasing their criticism of President Geisel's moderate liberalization efforts. Party president Guimaraes, for example, pointed out that his colleagues will not follow a "negativist" line, while campaign leader Montoro

President Geisel, who advocates some loosening of the strictures on political activity, allowed the election campaign to become unusually freewheeling by recent Brazilian standards. Moreover, he has shown no inclination to interfere with the vote count or suppress news of the government setback.

Geisel may point to the large turnout of voters and the gains by the MDB—which has called for new policies—as a strong indication that change of the sort he advocates is widely desired. Indeed, he may stress this factor to any among the military who may press for a reversal of the liberalization trend. Finally, Geisel's attitude toward the election may signal a realization, at least on his part, that the military needs to seek a broader base of support now that its chief claim to fame—strong economic performance—is weakening fast.

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